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TO RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0498  
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INFO RUCNRAQ/IRAQ COLLECTIVE  
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C O N F I D E N T I A L SECTION 01 OF 02 KIRKUK 000046

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BAGHDAD FOR ECON, POL, POLMIL, NCT, ROL COORDINATOR, IRMO

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TAGS: [PGOV](#) [KCOR](#) [EPET](#) [ECON](#) [PINS](#) [IZ](#)

SUBJECT: (C) ORGANIZED, WIDESPREAD CORRUPTION IN FUEL DISTRIBUTION

REF: (A) KIRKUK 1, (B) KIRKUK 35

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CLASSIFIED BY: Scott Dean, Regional Coordinator (Acting), Reo  
Kirkuk, Department of State .

REASON: 1.4 (b), (d)

¶1. (C) INTRODUCTION AND SUMMARY: A highly organized corruption ring is running a black market for fuel in Kirkuk, manipulating fuel prices, and siphoning fuel to Iran and Turkey for profit. The organization parallels KDP and PUK party, Peshmerga and Asayish structures. Attempts to cover up its activities led to the January 1 protest in Kirkuk that turned violent and resulted in at least three deaths (ref A). (NOTE: POLOFF obtained the information in this cable from a variety of sources -- including Arab and Christian leaders, but most specifically from two Kurdish "whistleblowers" who were part of the scheme and who possess extensive documentary evidence. END NOTE.) END INTRODUCTION AND SUMMARY.

#### (C) WIDESPREAD CORRUPTION ALLEGED IN FUEL DISTRIBUTION

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¶2. (C) The two dominant Kurdish political parties, the Kurdistan Democratic Party and Patriotic Union of Kurdistan, along with Peshmerga and Asayish security services, are controlling the black market for fuel in Kirkuk in a coordinated effort to maximize profitability and prevent discovery. A system of so-called "trade" gas stations exists, often alongside the government-regulated stations. The fuel prices are three times as high at the trade stations, but the supply is so minimal at the government stations that "you often have to wait a full day or more in line," forcing most locals to resign themselves to paying black market prices. A significant amount of the fuel meant for government-regulated stations (25 - 50%) is siphoned off for profit on the local black market or exported by large tanker trucks to neighboring countries where fuel prices are higher.

¶3. (C) Our sources point out that this level of coordination for distribution and security requires political complicity at "high levels." While many sources were uncomfortable naming names, one fuel depot assistant manager said, "this goes to the top - Kosrat Rasul (Executive Secretary of the Patriotic Union of Kurdistan's Politburo and the PUK's nominee for KRG Vice President) appointed these people." Another source noted: "one must look at who controls distribution and security. How can such large tankers go through all those checkpoints?" While a third said: "it is simple: follow the money. How can the Director of the OPDC (Oil Products Distribution Company - the

national Ministry of Oil's company responsible for fuel distribution) who lived in a rented house and one year later own a \$2.5 million house?" (Note: The PUK and KDP control security checkpoints, local Oil Ministry offices, and fuel distribution networks. End Note.)

(SBU) THE PROCESS - HOW IT'S DONE  
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¶4. (C) Large tanker trucks from Turkey deliver refined fuel products to Kirkuk. Official stamps and paperwork from the authorized government office facilitate the distribution process. One source who claimed to have worked in this area said that falsified paperwork from the local oil ministry office normally costs \$2500. These trucks, on their way to Kirkuk, stop approximately three kilometers outside the city where several 36,000-liter tanks have been placed. A quantity of the high quality gasoline from the trucks is then transferred to the tanks where it is diluted in a 40/60 mix with lower quality gasoline and several different batches are produced. Much of the high quality fuel is then re-directed towards Iran or back to Turkey. The lower grade fuel gets distributed to government stations, sold on the black market, or distributed to preferred groups on a prearranged volume basis (e.g., police, army, and other government agencies receive a set quantity each month). The corruption extends beyond petrol to include all types of fuel. A reliable contact, under current threat from smugglers, revealed that 10 million liters of kerosene were given to the PUK "on credit." This kerosene was then sold to Iran. He noted that: "the party accumulates huge profits, while citizens under PUK control continue to complain of kerosene shortages." (NOTE: Kerosene is the main heating fuel. END NOTE.)

(C) VIOLENT DEMONSTRATION - A COORDINATED PLAN  
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¶5. (C) All sources quoted above and local police contacts agree

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that the violent demonstration in Kirkuk January 1 (ref A) was politically planned and synchronized as a distraction to conceal torching records and stealing thousands of petrol coupons in two specific areas of the local Oil Directory offices. The arsonists targeted only the area of the office that dealt with information on the Turkish tanker trucks and related distribution records.

(U) COMMENT  
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¶6. (C) Government fuel prices have risen. However, it is the low supply at government stations and the high black market, rather than government fuel price hikes, that are sparking popular discontent. More broadly, widespread corruption is fueling popular frustration and disillusionment.  
DEAN